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State of Vermont
Public Service Board

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JUN 2 - 1999

Federal Communications Commission
Office of Secretary

May 21, 1999

Ms. Magalie Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: **Ex Parte Disclosure:** In the Matter of Federal-State Joint Board on
Universal Service, CC Docket No. 96-45

Dear Secretary Salas:

In accordance with the Commission's rules, this letter is to disclose an ex parte contact. I have provided an original and a copy for your files. I also enclose an additional copy that I ask you to stamp as received and return in the enclosed envelope.

On May 21, 1999, Michael Dworkin, Chair of the Vermont Public Service Board, and Thomas Welch, Chair of the Maine Public Utilities Commission, faxed the enclosed two page letter to Chairman Kennard and to Commissioners Ness, Furchgott-Roth, Powell, and Tristani. The subject of the letter was the need for universal service support increases to high cost areas on July 1, 1999.

Sincerely,

A handwritten signature in cursive script, appearing to read "Peter Bluhm".

Peter M. Bluhm, Esq.
Director of Regulatory Policy

Enclosures:

May 20, 1999 letter to Chairman Kennard
stamped envelope

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Federal Communications Commission
Office of Secretary

May 20, 1999

Honorable William E. Kennard, Chairman
Federal Communications Commission
(by fax to (202) 418-2812)

In re: State Joint Board on Universal Service,
CC Docket 96-45

Dear Chairman Kennard:

The Commission has not yet issued any order describing what it will do regarding high cost support on July 1, although that date is now only six weeks away. This strongly suggests that the Commission may not be prepared to implement a new forward-looking model on July 1, as it anticipated last summer.

The undersigned state commissions urge the FCC to take prompt action consistent with the Second Recommended Decision of the Joint Board on Universal Service. The Second Recommended Decision stated as follows:

In the event that the Commission has not defined all elements necessary to calculate support based on forward-looking costs in time for implementation by July 1, 1999, then the Joint Board recommends that the present method for determining support be continued for an interim period. In that event, we also recommend that the Commission make interim adjustments to the present rules to *resolve any comparability issues in rural states primarily served by a large carrier*, consistent with our general recommendation on comparability issues. (emphasis added)

The obligation to ensure that rates are reasonably comparable came into being, by Congressional action, on February 6, 1996. By this July, 41 months will have passed. Even if the forward-looking models are still not ready, the Commission should not delay any longer in providing support to high cost areas that is sufficient to ensure reasonable comparability. It is impossible to know for certain when problems with the models will be solved. Unreadiness of the models has been a repeated disappointment to state and federal regulators alike.

Chairman Kennard
May 20, 1999

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The need for support exists now, as it has for the past three years. Whether measured by embedded data or a forward looking model, the undeniable fact is that carriers serving some nonrural study areas have costs that are substantially above others. Customers in these areas generally have either high rates or receive service of limited value, such as by having small local calling areas.

The existing system has serious deficiencies that should not be overlooked any longer. Rates are driven by costs, but the existing high cost support system for nonrural carriers disregards some large cost drivers. Switching and transport costs of nonrural carriers are overlooked entirely. Also, discrimination based on carrier size remains a serious concern. For high cost loops, small carriers now receive 65% support, while larger carriers receive only 10% support. This kind of size-based discrimination is not competitively neutral and should be eliminated as soon as possible.

The rate to be charged for universal service is scheduled to decrease in the third quarter. This makes the coming July 1 a particularly crucial time to make a commitment to universal service.

We realize that the Commission will face difficult decisions when it considers universal service on May 27. We urge you, however, not to delay the difficult decisions any longer.

Sincerely,



Michael H. Dworkin, Chair
Vermont Public Service Board



Thomas L. Welch, Chair
Maine Public Utilities Commission

cc: Commissioner Ness (fax (202) 418-2821)
Commissioner Furchgott-Roth (fax (202) 418-2812)
Commissioner Powell (fax (202) 418-2820)
Commissioner Tristani (fax (202) 418-7542)